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## COMMENTS

### THE PATENT-ANTITRUST BALANCE: PROPOSALS FOR CHANGE

#### I. INTRODUCTION

The patent and antitrust laws exist side by side, both concerned with the promotion of commerce in the United States. The antitrust laws<sup>1</sup> accomplish this function by removing artificial market restraints so that competition tends toward the ideal economic model for free enterprise. In contrast, the patent laws<sup>2</sup> explicitly create artificial market restraints. By granting a statutory monopoly to inventors for a period of seventeen years,<sup>3</sup> they provide special inducement<sup>4</sup> for invention and innovation over and above what the ideal economic model would supply. The antitrust-patent spheres come in conflict when the patent monopoly protecting the invention is used as a lever to provide competitive superiority to the patentee's market. At this point, the patented product is no longer covered by the limited exception created by the patent laws and is therefore subject to full enforcement of the

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1. The relevant antitrust laws are: Sherman Act § 2, 15 U.S.C. § 2 (1970); Clayton Act § 3, 15 U.S.C. § 14 (1970); Federal Trade Commission Act § 5(a) (1), 15 U.S.C. § 45(a) (1) (1970). The text to these statutes is found in notes 9, 12 and 13, respectively, *infra*.

2. The relevant patent laws include: 35 U.S.C. § 154 (1970), which provides in pertinent part:

Every patent shall contain a short title of the invention and a grant to the patentee, his heirs or assigns, for the term of seventeen years . . . of the right to exclude others from making, using, or selling the invention throughout the United States . . . .

35 U.S.C. § 261 (1970) provides in pertinent part:

Subject to the provisions of this title, patents shall have the attributes of personal property.

3. One commentator has suggested that the patent laws actually have an adverse effect on invention. First, because of the patent monopoly, many new ideas are not applied so widely as they would be if freely available. Second, the patent monopoly often forces competitors of the patentee to invest money in duplicative research to find a non-infringing way to produce the same result. As a corollary, research is inhibited in areas already occupied by existing patents, because the chances are slim of finding a non-infringing result. Third, patents increase the cost of development because a certain amount must be diverted to developing around patents already held. Turner, *Patents, Antitrust and Innovation*, 28 U. PITT. L. REV. 151, 152 (1966).

4. In fact, the constitutional basis for patents is expressed in terms of an inducement. U.S. CONST. art. I, § 8, cl. 8, provides in pertinent part:

The Congress shall have Power . . . To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.

antitrust laws. Respective advocates of antitrust and patent principles continuously disagree over the position of the line separating the scope of the patent grant from practices falling outside its scope. Consequently, there is a constant conflict existing between the two policies.

Some commentators have urged that there is no real conflict,<sup>5</sup> except where the patent monopoly is used to influence a market not covered by the patent grant. It is submitted, however, that this approach begs the question. It is the determination of just what is within the patent grant that creates the controversy.

In the past, controversy existed over the very nature of a patent. Patent advocates urged that patents were a form of property,<sup>6</sup> while some antitrust advocates urged that patents were merely "a privilege . . . conditioned by a public purpose,"<sup>7</sup> similar to a public utility. Although the statute now provides expressly that patents are personal property,<sup>8</sup> the spirit of the opposing view is probably still reflected in restrictions now urged on patents.

Problems are created by the specific wording of some of the antitrust and patent statutes. Section 2 of the Sherman Act prohibits monopolization of any relevant market,<sup>9</sup> while the patent laws grant the inventor a monopoly for 17 years.<sup>10</sup> Section 2 also prohibits agreements to monopolize, while the patent laws permit the patentee to enter into exclusive license agreements with licensees of his choice.<sup>11</sup> Section 3 of the Clayton Act,<sup>12</sup> which prohibits tying arrangements, has been

5. See, e.g., Oppenheim, *The Patent-Antitrust Spectrum of Patent and Know-How License Limitations: Accommodation? Conflict? or Antitrust Supremacy?*, 15 IDEA 1 (1971), wherein the author states:

[I]t may fairly be concluded that placed in proper perspective, the corpus of judicial decisions dealing case-by-case with the interactions of patent and antitrust public policies does not reveal substantial evidence of a trend toward undermining judicial protection of the "hard core" of license limitations ancillary to the lawful scope of the patent grant.

*Id.* at 1-2. See also THE ATT'Y GEN'L'S NAT'L COMM. TO STUDY THE ANTITRUST LAWS 224 (1955) [hereinafter cited as ATTORNEY GENERAL'S COMMITTEE].

6. Justice Holmes once stated that patents were "property carried to the highest degree of abstraction — a right *in rem* to exclude, without a physical object or content." 1 HOLMES-POLLOCK LETTERS 53 (2d ed. M. Howe 1961).

7. *Mercoird Corp. v. Mid-Continent Inv. Co.*, 320 U.S. 661, 666 (1944).

8. 35 U.S.C. § 261 (1970).

9. 15 U.S.C. § 2 (1970). This section provides in pertinent part:

Every person who shall monopolize, or attempt to monopolize, or combine or conspire with any other person or persons, to monopolize any part of the trade or commerce among the several States . . . shall be deemed guilty of a misdemeanor . . .

10. 35 U.S.C. § 154 (1970).

11. 35 U.S.C. § 261 (1970) provides:

The applicant, patentee, or his assigns or legal representatives may in like manner grant and convey an exclusive right under his application for patent, or patents, to the whole or any specified part of the United States.

12. 15 U.S.C. § 14 (1970) provides in part:

That it shall be unlawful for any person engaged in commerce . . . to lease or make a sale or contract for sale of . . . commodities, whether patented or unpatented . . . on the condition, agreement or understanding that the lessee or purchaser thereof shall not use or deal in the . . . commodities of a competitor or competitors of the lessor or seller, where the effect of such lease, sale, or contract for sale or such condition, agreement or understanding may be to substantially lessen competition or tend to create a monopoly in any line of commerce.

used to attack the patent practice of compulsory package licensing. In addition, section 5 of the Federal Trade Commission Act,<sup>13</sup> which prohibits "unfair methods of competition," is applied against almost every patent practice.

In the first third of the 20th century the patent advocates seemed to hold a strong position, with the Supreme Court having approved tying arrangements,<sup>14</sup> first sale price restrictions<sup>15</sup> and first sale territorial restrictions.<sup>16</sup> In the forties, however, the tide seemed to turn. In several antitrust suits, the Court limited its earlier decisions upholding price restrictions,<sup>17</sup> and outlawed the pooling of patents by competitors where the practice tended to monopolize.<sup>18</sup> Patent rights might have been limited even further, but the revisions to the Patent Code in 1952 retarded the judicial trend somewhat. Since 1952, the situation has evidently stabilized — while the Court has outlawed cross licensing agreements designed to suppress competition<sup>19</sup> and patent royalties which extend past the expiration of the patent,<sup>20</sup> it has also condoned voluntary package licensing.<sup>21</sup>

Certain factors are now in motion which favor the antitrust position. A White House Task Force on Antitrust Policy<sup>22</sup> proposed that a patent owner granting one license under his patent be required to grant all financially qualified and respectable applicants a license under terms "neither more restrictive nor less favorable" than the first license.<sup>23</sup> Meanwhile, the Antitrust Division of the Justice Department has proposed a "rule of necessity" in considering antitrust prosecution of patent activities:

In considering whether to attack a particular licensing provision or practice, we ask two fundamental questions. First, is the particular

13. 15 U.S.C. § 45(a)(1) (1970) provides:

Unfair methods of competition in commerce, and unfair or deceptive acts or practices in commerce, are hereby declared unlawful.

14. *Henry v. A.B. Dick Co.*, 224 U.S. 1 (1912). After passage of section 3 of the Clayton Act, the Court overruled *Henry*. *Motion Pictures Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502 (1917).

15. *United States v. General Elec. Co.*, 272 U.S. 476 (1926). The holding of *General Electric* has been considerably narrowed by later decisions. See note 79 *infra*.

16. *General Talking Pictures Corp. v. Western Elec. Co.*, 305 U.S. 124 (1938).

17. *United States v. U.S. Gypsum Co.*, 333 U.S. 364 (1948). In this case the Court outlawed price restrictions where the product contained both patented and unpatented parts. In *United States v. New Wrinkle, Inc.*, 342 U.S. 371 (1952), the Court outlawed price restrictions imposed by a holding company on competitors who pooled their patents in the holding company.

18. *Hartford-Empire Co. v. United States*, 323 U.S. 386 (1945).

19. *United States v. Singer Mfg. Co.*, 374 U.S. 174 (1963).

20. *Brulotte v. Thys Co.*, 379 U.S. 29 (1964). See notes 117-24 and accompanying text *infra*.

21. *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100 (1969). See notes 125-37 and accompanying text *infra*. For a more complete discussion of the evolving judicial attitudes of the patent-antitrust conflict, see Wood, *Patents, Antitrust and Prima Facie Attitudes*, 50 VA. L. REV. 571, 573-77 (1964).

22. ANTITRUST AND TRADE REGULATION REPORT, No. 411, SPECIAL SUPPLEMENT, pt. II: WHITE HOUSE TASK FORCE REPORT ON ANTITRUST POLICY, May 27, 1969 [hereinafter cited as WHITE HOUSE TASK FORCE].

23. *Id.* at 22.

provision justifiable as necessary to the patentee's exploitation of his lawful monopoly? Second, are there less restrictive alternatives which are more likely to foster competition available to the patentee? Where the answer to the first question is No, and to the second Yes, we will consider bringing a case challenging the restriction involved.<sup>24</sup>

This language is in marked contrast to the rule of reason test for patents laid down in *United States v. General Electric Co.*<sup>25</sup> which condoned license provisions "normally and reasonably adapted to secure pecuniary reward for the patentee's monopoly."<sup>26</sup>

This impetus for change has produced a state of uncertainty as to the legality of patent practices in the business world. Businessmen are extremely reluctant to engage in questionable activity where the possible penalties are criminal prosecution, treble damages in civil suits,<sup>27</sup> nonenforceability of the patent,<sup>28</sup> and accompanying adverse publicity and public condemnation. Consequently, certain license practices heretofore believed legal, may be abandoned, thus depriving the patentee of the use of his property. Unlike other property, the value of a patent may perhaps only be realized by granting licenses under the patent,<sup>29</sup> especially where the patentee does not have the physical facilities himself to put the invention into mass production. Concededly, some uncertainty must remain. Concrete rules applicable to every aspect of patent licenses are undesirable in view of the need for flexibility where business relations are involved.<sup>30</sup> However, businessmen would be re-

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24. McLaren, *Patent Licenses and Antitrust Considerations*, 13 IDEA 61, 63 (Conference Number 1969). See also Donnem, *The Antitrust Attack on Restrictive Patent License Provisions*, 14 ANTITRUST BULL. 749 (1969).

25. 272 U.S. 476 (1926).

26. *Id.* at 490.

27. Clayton Act § 4, 15 U.S.C. § 15 (1970), provides:

That any person who shall be injured in his business or property by reason of anything forbidden in the antitrust laws may sue therefor in any district court of the United States in the district in which the defendant resides or is found or has an agent, without respect to the amount in controversy, and shall recover threefold the damages by him sustained, and the cost of suit, including a reasonable attorney's fee.

28. One judicially imposed sanction for patent misuse is the nonenforceability of the patent. See note 42 *infra*.

29. As one commentator has observed:

The right given to a patentee is one to exclude others, for a limited period, from making, using or selling his invention. Yet, the value of such invention to the general public will only be realized by use of such invention by the patentee or by his permitting others to acquire the right to use the invention by purchase of, or license under, the patent. It is upon such sale or licensing and the attaching of ancillary restrictive conditions thereto that potential incompatibility or conflict between the antitrust laws and the patent system arises.

Heyman, *Patent Licensing and the Antitrust Laws — A Reappraisal at the Close of the Decade*, 14 ANTITRUST BULL. 537 (1969).

30. Professor Oppenheim has noted:

[T]his yearning for certainty must be balanced against the need for flexibility, two opposing forces which are as old as the process of law itself. We must be on our guard against extension of the certainty of "per se" rules beyond their proper bounds but we must also be reconciled to the imprecision of an antitrust policy Rule of Reason applied to restraints beyond the rights of exclusion inherent in the patent grant.

Oppenheim, *supra* note 5, at 2 (footnotes omitted).

assured if a general standard were affirmed that would recognize the legality of certain well-defined types of licensing arrangements.

While the restraint imposed by the license agreement applies only to matters within the patent grant, it is posited that the Antitrust Division's rule of necessity is inappropriate in that it fails to take into account the special treatment accorded patents under the patent laws. The standard for validity suggested by this Comment — one very similar to the test of *General Electric* — is whether the restraint is made to secure for the patentee the pecuniary reward of his patent, as opposed to whether it is used for other ends<sup>31</sup> such as favoring one competitor over another. So long as he is acting to secure his pecuniary reward, the patentee need not justify his conduct by showing that there is no other less restrictive alternative open to him. Where, however, the restraint is extended to areas outside the patent grant, as in a license requiring grant-backs,<sup>32</sup> then the announced rule of necessity should apply because in that instance the patentee no longer can claim the special treatment of the patent laws, and he must justify as necessary to the enjoyment of his patent the resultant restraint on competition.

This Comment will explore specific aspects of licensing now under challenge, apply the general principles announced above to these specific situations, and propose statutory modifications measuring the validity of patent activity by these standards.

## II. PROPOSALS

### A. *Exclusive and Non-Exclusive Dealing*

At the present time a patentee has the unqualified statutory right to decide whom he will license.<sup>33</sup> Inasmuch as a patent is a form of personal property,<sup>34</sup> this provision is a reflection of the constitutional

31. See Wood, *supra* note 21, at 593. See also Note, *Regulation of Patent License Royalty Rates Under the Antitrust Laws*, 65 MICH. L. REV. 1631, 1637 (1967).

32. See notes 93-108 and accompanying text *infra*.

33. 35 U.S.C. § 261 (1970) provides in pertinent part that "the . . . patentee . . . may . . . grant and convey an exclusive right under his application for patent . . . ." This has been interpreted to give the patentee the right to license or refuse to license as he chooses. See, e.g., *Bela Seating Co. v. Poloron Prods., Inc.* 297 F. Supp. 489 (N.D. Ill. 1968), *aff'd*, 438 F.2d 733 (7th Cir. 1971), wherein the district court stated: Plaintiff has no duty to grant a license to defendant under the patent in suit, merely because defendant had requested such a license. A patent owner has the right to grant a license to some, as he chooses, without granting a license to others. *Id.* at 509.

34. Some early commentators have posited otherwise. For example, it was suggested that a patent is "a private stake in the public domain." W. HAMILTON, *PATENTS AND FREE ENTERPRISE* 51 (TNEC MONOGRAPH No. 31, 1941). Others have suggested that patents are "a franchise issued to foster and increase trade for the benefit of the public." Meyers & Lewis, *The Patent "Franchise" and the Antitrust Laws*, 30 GEO. L.J. 117, 123 (1941). Even the Supreme Court stated that it was "a privilege which is conditioned by a public purpose." *Mercoird Corp. v. Mid-Continent Inv. Co.*, 320 U.S. 661, 666 (1944).

However, in *Hartford-Empire Co. v. United States*, 323 U.S. 386, 415 (1944), the Court unequivocally stated: "[t]hat a patent is property, protected against appro-

right of individuals to own, enjoy and dispose of private property.<sup>35</sup> This right is especially important where the patentee has neither the financial means nor the business acumen to successfully exploit the patent himself. Thus, if limitations are placed on the patentee's right to dispose of his patent, he will have effectively been denied the full enjoyment of his patent property. More importantly, public interest is not served if the patentee is unable to market it himself or dispose of his property to others who will.<sup>36</sup>

No serious proposals have been advanced questioning the patentee's right to sell or license his patent. However, the right to license patent property to whomever the patentee pleases has been challenged in a recommendation of the White House Task Force which would require that "a patent which has been licensed by one person shall be made available to all other qualified applicants on equivalent terms."<sup>37</sup> The Task Force felt that such a proviso would prevent a patentee from granting preferential treatment to one group, thereby creating a monopoly broader than the patent itself.<sup>38</sup> Since pure unilateral refusals to deal have been held legal,<sup>39</sup> this proposed treatment of licensing implies a suspicion of agreement between the patentee and the preferred group to suppress competition and maintain prices in a substantial number of cases. Besides ignoring the possibility that the patentee may have legitimate business reasons which justify his refusal to license,<sup>40</sup> such a blanket requirement is unnecessary because concerted refusals to deal have long been held to be illegal in the patentee-licensee situation.<sup>41</sup>

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priation both by individuals and the government, has long been settled." Congress put an end to debate on the matter by providing that "patents shall have the attributes of personal property." 35 U.S.C. § 261 (1970).

35. U.S. CONST. amend. V provides in part:

[N]or [shall any person] be deprived of life, liberty or property, without due process of law; nor shall private property be taken for public use, without just compensation.

36. See note 29 *supra*. Such a suppression of the patented invention to the detriment of the public would be ironic in view of the purpose of the patent grant, which is "[t]o promote the Progress of Science and useful Arts." See note 4 *supra*.

37. WHITE HOUSE TASK FORCE, *supra* note 22, at 3.

38. *Id.* at 4. In addition, the court in *Allied Research Prods., Inc. v. Heatbath Corp.*, 300 F. Supp. 656 (N.D. Ill. 1964), stated that a refusal to grant licenses to other parties was "unfair discrimination." However, it is unclear from the record whether it was a purely vertical refusal to deal or whether there were horizontal aspects.

39. *United States v. Colgate & Co.*, 250 U.S. 300, 307 (1919). The Court stated: In the absence of any purpose to create or maintain a monopoly, the [Sherman] act does not restrict the long recognized right of trader or manufacturer engaged in an entirely private business, freely to exercise his own independent discretion as to parties with whom he will deal . . . .

40. For example, the patentee may refuse a license to a prospective licensee because of the latter's poor distribution, unimaginative marketing approach or past record of poor servicing after the sale.

41. The landmark decision outlawing concerted refusals to deal was *Eastern States Retail Lumber Dealers' Ass'n v. United States*, 234 U.S. 600 (1914). Since then, the courts have applied this doctrine to patent situations and held it to be an unlawful conspiracy for a patentee to agree with his licensee that he would not, without the licensee's consent, grant further licenses to any other person. See, e.g., *United States v. Krasnov*, 143 F. Supp. 184 (E.D. Pa. 1956), *aff'd per curiam*, 355 U.S. 5 (1957); *United States v. Besser Mfg. Co.*, 96 F. Supp. 304 (E.D. Mich. 1951), *aff'd*, 343 U.S. 444 (1952).

Furthermore, in the event that a refusal to license can be shown to be a violation of the antitrust laws, the remedy of compulsory licensing is available.<sup>42</sup>

There is also a distinct possibility that such a provision would have a depressant effect on the stimulus to invent superior products. If a rival of the patentee knows the product will be made available to him anyway, he will be more inclined to forego the risk and expense of independent development of a superior product, and simply wait for access to the patent.<sup>43</sup>

Although section 261 of the Patent Code<sup>44</sup> explicitly permits the patentee to "grant and convey an exclusive right," in view of the White House Task Force's pressure for change, a court might be inclined to construe this provision as applying only to outright assignments and not licenses.<sup>45</sup> In light of this possibility, it would be beneficial to clarify section 261 to emphasize that the patentee has the right to license by exclusive or non-exclusive arrangement with the parties of his choice.<sup>46</sup> Care should be taken, however, in draftsmanship to indicate that the decision must be a unilateral one with legitimate business reasons, and not a concerted agreement with other licensees.<sup>47</sup> The statute might take the following form:

*A patent holder may, at his election, license by exclusive or non-exclusive arrangement with the party or parties of his choice, where reasonable to the enjoyment and benefit of his patent.*

If enacted as suggested, such a clarification would guarantee that the present patent-antitrust balance between the businessman's needs in se-

42. See, e.g., *Besser Mfg. Co. v. United States*, 343 U.S. 444, 449 (1952); *United States v. U.S. Gypsum Co.*, 340 U.S. 76, 94 (1950); *Hartford-Empire Co. v. United States*, 323 U.S. 386, 417, *clarified*, 324 U.S. 570 (1945).

43. As the court stated in *James P. Marsh Corp. v. U.S. Gauge Co.*, 129 F.2d 161, 165 (7th Cir. 1942):

It must be admitted that in an effort to avoid infringement of a patent, as much skill is often displayed as is shown in the conception or development of the invention itself. There is, however, nothing objectionable in this. In fact, it is thus that the patent system is working at its best. For it is then that we have competition between a holder of a legal monopoly and his competitors. It illustrates how the legal monopoly evidenced by a patent excites the competitors to their best to meet or excel the product covered by the existing patent. Competition among industrial rivals and inventors is thus incited.

44. 35 U.S.C. § 261 (1970).

45. In fact, one court made such an observation in dictum. See *Allied Research Prods., Inc. v. Heatbath Corp.*, 300 F. Supp. 656, 657 (N.D. Ill. 1964).

46. On March 19, 1971, Senator Hugh Scott introduced Amendment No. 24 [hereinafter cited as the Scott Amendment] to the McClellan Bill for revision of the patent laws. S. 643, 92d Cong., 1st Sess. § 261(b)(2) (1971). The proposal provides in pertinent part that:

An applicant, patentee, or his legal representative may also, at his election . . . license . . . his rights under a patent . . . by exclusive or non-exclusive arrangements with a party or parties of his choice.

*Id.*

47. The proposed Scott Amendment uses the language "at his election," implying that the decision not to license must be a unilateral one and not an agreement with other licensees. However, the language should be made more explicit on this point.



lecting his licensees<sup>48</sup> and the maintenance of competition within the terms of the antitrust laws is maintained.

*B. Licensing Less Than the Entire Right  
To Make, Use, and Sell*

*1. Geographical Limitations*

Presently, unilateral allocation of markets by the patentee to his licensees is considered to be within the patent grant.<sup>49</sup> Although some courts have attacked other licensing restrictions, none have held that a simple territorial division was illegal.<sup>50</sup>

The territorial division is often the only way the patentee may derive an economic benefit from his patent property. For example, the patentee may not have the capabilities to develop and market his product on a nationwide scale. Moreover, none of his prospective licensees may be large enough to develop the market fully. Therefore, to benefit through increased royalties, the patentee may license people in different areas, each of whom will market fully in that area. This allocation of territory will also benefit the public, inasmuch as the invention is made available to everyone. However, where there is not a legitimate business reason for the division and its effect is harmful rather than beneficial to the

48. Selection of a subpat licensee; *i.e.*, poor distribution, poor sales approach, or inadequate servicing after sale, can harm the patentee's remaining interests in the patent. The WHITE HOUSE TASK FORCE proposals suggest licensing of parties who are financially responsible and of good reputation. However, a prospective licensee could meet this description and still damage the patent owner's remaining rights. Moreover, needless litigation could develop over whether a prospective licensee fits that description.

An argument could be made that the proposal would simply legitimize what is already standard procedure, because frequently when a party is denied a license, it simply infringes. By the time the case is tried, the infringing party will have marketed the product to his full satisfaction. The measure of damages suggested by the statute is a "reasonable royalty," so the infringing party effectively becomes a licensee by his actions. 35 U.S.C. § 284 (1970). Such an argument is specious, however, since it could be used to approve violation of any contract provision.

49. 35 U.S.C. § 261 (1970). This section provides in part that the "patentee . . . may . . . convey an exclusive right under his . . . patent . . . to the whole or any specified part of the United States."

50. *See, e.g.*, *Suydam v. Day*, 23 F. Cas. 473, 474 (No. 13,654) (C.C.S.D. N.Y. 1846). This is one of the earliest cases which discussed territorial restrictions. The court cast doubt on every licensing restriction, except territorial divisions, stating, "[t]he subject matter of a patent is not partible except in respect to territorial assignments." *See also* *Brownell v. Kitcham Wire & Mfg. Co.*, 211 F.2d 121, 128 (9th Cir. 1954), where the court stated, "[i]t is a fundamental rule of patent law that the owner of a patent may license another and prescribe territorial limitations." The Attorney General's Committee was in agreement, stating:

Most members feel, however, that there is no doubt of the right of a patentee to place territorial restrictions upon his assignee or licensee within the United States. ATTORNEY GENERAL'S COMMITTEE, *supra* note 5, at 237. For more recent cases upholding territorial limitations, *see* *Deering, Milliken & Co. v. Temp-Resisto Corp.*, 160 F. Supp. 463 (S.D.N.Y. 1958); *United States v. Crown Zellerbach Corp.*, 141 F. Supp. 118 (N.D. Ill. 1956).

public, the patentee would be getting an unreasonable reward from his patent and will be subject to antitrust sanction.<sup>51</sup>

The foregoing discussion indicates that presently a rule of reason applies to territorial licenses so that their use is not unlawful except in particular circumstances where they unreasonably restrain competition. Thus, a balance is struck between the patentee's right to full economic enjoyment of his property and the maintenance of competition as envisioned by the antitrust laws.

Division of territories not involving patents are subject to a standard different than the rule of reason approach applied to patents. Horizontal territorial restraints are per se illegal since *United States v. Sealy, Inc.*,<sup>52</sup> while vertical territorial restraints may be in danger of the same fate.<sup>53</sup> Patents fall into a separate category primarily because of the language of section 261<sup>54</sup> which apparently permits a licensee to license with territorial restrictions.

Thus, any contention that section 261 was not intended to apply to territorial licensing restrictions threatens to place such allocations under the *Sealy* rule of per se illegality, relating to horizontal territorial restrictions, and the uncertainty of vertical territorial restrictions produced by *White Motor Co. v. United States*.<sup>55</sup> A position has been taken by one commentator that the first patent section dealing with territorial restrictions enacted in 1836<sup>56</sup> was intended to deal only with assignments and not licenses.<sup>57</sup> As a result of technical modifications in subsequent acts

51. See, e.g., *United States v. National Lead Co.*, 332 U.S. 319 (1947), where the Court struck down territorial divisions which went beyond the patentee's reasonable reward. It stated that:

[The Court has] an obligation to give effect to the provisions, on the one hand, of the patent laws granting certain valuable rights in the nature of monopolies to the patentees and their licensees, and also to give effect, on the other hand, to the provisions of the Sherman Antitrust Act prohibiting any combination or conspiracy in restraint of trade among the several states or with foreign nations. *Id.* at 335.

52. 388 U.S. 350 (1967). The Court stated with regard to horizontal territorial divisions:

Within settled doctrine, they are unlawful under § 1 of the Sherman Act without the necessity for an inquiry in each particular case as to their business or economic justification, their impact in the marketplace, or their reasonableness. *Id.* at 357-58.

53. *White Motor Co. v. United States*, 372 U.S. 253 (1963). The *White* Court stated that not enough information was available on vertical territorial restraints to determine if they were so lacking in redeeming value as to be classified as per se violations of the Sherman Act. *Id.* at 263.

54. See note 49 *supra*.

55. 372 U.S. 253 (1963). See note 53 *supra*.

56. Act of July 4, 1836, ch. 357, § 11, 5 Stat. 117. This section provides:

[E]very patent shall be assignable in law, either as to the whole interest, or any undivided part thereof, by any assignment in writing; which assignment and also every other grant . . . of the exclusive right . . . to make and use, and to grant to others to make and use, the thing patented within and throughout any specified part . . . of the United States, shall be recorded in the Patent Office . . . .

57. Baxter, *Legal Restrictions on Exploitation of the Patent Monopoly: An Economic Analysis*, 76 YALE L.J. 267, 349-52 (1966).

passed in 1870,<sup>58</sup> 1875,<sup>59</sup> 1897,<sup>60</sup> 1941<sup>61</sup> and the present act passed in 1952,<sup>62</sup> section 261 on its face would include both assignments and licenses. Yet, it is urged that the position is erroneous in view of the original wording of the statute,<sup>63</sup> and the lack of any evidence that Congress subsequent to 1836 intended to legitimize territorial licensing restrictions.<sup>64</sup>

By taking this position, the patentee is stripped of any exemption from the antitrust principles relating to territorial restrictions. It is submitted that a rule of per se illegality would be inappropriate in the patent context because there are situations in which territorial allocations will be dictated by business necessity, and, at the same time, will not restrain competition. As discussed previously, this would occur in a situation where none of the prospective licensees had the marketing facilities to effectuate a nationwide license. In this case, the patentee's royalty returns would be smaller than necessary and the product would be generally unavailable to the public, unless the patentee grants licenses to several licensees who could effectively market in their respective areas. Because of this situation and others that may arise where there is a legitimate reason for territorial licensing, section 261 should be amended to legitimize territorial licensing where reasonable under the circumstances.<sup>65</sup> The following language is suggested:

*A patent holder may, at his election, license his rights under his patent for the whole or any part of the United States to the parties of his choice, where reasonable to the enjoyment and benefit of his patent.*

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58. Act of July 8, 1870, ch. 230, § 36, 16 Stat. 198.

59. U.S. Rev. Stat. § 4898 (1875).

60. Act of March 3, 1897, ch. 391, § 5, 29 Stat. 692.

61. Act of Aug. 18, 1941, ch. 370, 55 Stat. 634.

62. 35 U.S.C. § 261 (1970).

63. Act of July 4, 1836, ch. 357, § 11, 5 Stat. 117. See note 56 *supra*.

64. One commentator takes the position that:

The section should be given the full import intended for it. The assignee of an exclusive territorial right has "property" and may sue for infringement within his territory. His document should be interpreted by the suppletive rules appropriate to assignments, and so forth. But to allow this section to preclude intelligent harmonization of divergent objectives of the patent and antitrust laws would be to parody the process of statutory interpretation. The statutory phrase antedates the Sherman Act by more than fifty years, and neither at the time of its passage nor at any time during the interim hundred forty years has Congress given any evidence that the language represented a considered judgment on the substantive propriety of territorial restrictions and their economic consequences. On its face the section leaves untouched the validity of territorial restrictions in licenses; it should be construed as irrelevant to the substantive validity of similar restrictions in assignments.

Baxter, *supra* note 57, at 351-52 (footnotes omitted).

65. The Scott Amendment would bring about such a result. S. 643, 92d Cong., 1st Sess. § 261(b)(2) (1971). See note 46 *supra*. This proposal, however, fails to provide that such a license would not be legal where its effect would be to restrain trade and, thus, could be interpreted as a blanket authorization to make territorial restrictions under any circumstances. To avoid needless litigation requiring an examination of Congressional intent, any amendment similar to that above should be enacted with an additional clause providing that territorial provisions will be valid where reasonable to the enjoyment of the patent.

## 2. *Field of Use Licensing Limitations*

Field of use licensing refers to a practice where the patentee restricts a licensee in the use he may make of the patent. For example, a patented drug may have utility both as a pharmaceutical and as a cosmetic. The patentee may allow his licensee to use the patent in only one of the fields.

Presently, in contrast to territorial limitations, no statutory provision can be cited specifically protecting field of use restrictions. However, since the Supreme Court's affirmance of field of use restrictions in *General Talking Pictures Corp. v. Western Electric Co.*,<sup>66</sup> numerous lower federal courts have upheld similar provisions.<sup>67</sup> Only where the restriction has been used as part of an anticompetitive scheme has it been held illegal.<sup>68</sup> It seems safe to say then that at the present time a field of use restriction is valid and the burden would be on the party alleging an antitrust violation to show the anticompetitive result. This rule of reason approach is justified by sound business reasons for the restrictions.<sup>69</sup> To give one example, the patentee may entice more licensees

66. 305 U.S. 124 (1938). The Court considered the issue summarily, stating: That a restrictive license is legal seems clear . . . . As was said in *United States v. General Electric Co.* . . . the patentee may grant a license "upon any condition the performance of which is reasonably within the reward to which the patentee by the grant of a patent is entitled to secure." The restriction here imposed is of that character. The practice of granting licenses for a restricted use is an old one . . . . So far as appears, its legality has never been questioned.

*Id.* at 127 (citations omitted).

67. Simple field of use restriction in patent licenses have been held valid. *Hazeltine Research, Inc. v. Admiral Corp.*, 183 F.2d 953 (7th Cir.), *cert. denied*, 340 U.S. 896 (1950); *Automatic Radio Mfg. Co. v. Hazeltine Research, Inc.*, 176 F.2d 799 (1st Cir. 1949), *aff'd on other grounds*, 339 U.S. 827 (1950); *Barr Rubber Prods. Co. v. Sun Rubber Co.*, 277 F. Supp. 484 (S.D.N.Y. 1967); *Chemagro Corp. v. Universal Chem. Co.*, 244 F. Supp. 486 (E.D. Tex. 1965); *Benger Labs., Ltd. v. R.K. Laros Co.*, 209 F. Supp. 639 (E.D. Pa. 1962), *aff'd per curiam*, 317 F.2d 455 (3d Cir.), *cert. denied*, 375 U.S. 833 (1963); *Eversharp, Inc. v. Fisher Pen Co.*, 204 F. Supp. 649 (N.D. Ill. 1961); *Westinghouse Elec. Corp. v. Bulldog Elec. Prods. Co.*, 106 F. Supp. 819 (N.D.W. Va. 1952), *aff'd on other grounds*, 206 F.2d 574 (4th Cir.), *cert. denied*, 346 U.S. 909 (1953).

In addition, the Attorney General's Committee recognized the continuing vitality of *General Talking Pictures* in stating that field of use restrictions were valid. ATTORNEY GENERAL'S COMMITTEE, *supra* note 5, at 236.

68. Field of use restrictions have been held illegal where they have been used: (1) to allocate markets among competitors: *United States v. National Lead Co.*, 332 U.S. 319 (1947); *Hartford-Empire Co. v. United States*, 323 U.S. 386 (1945); (2) to impose quantity restrictions: *United States v. U.S. Gypsum Co.*, 333 U.S. 364 (1948); (3) to allocate customers: *United States v. Consolidated Laundries Corp.*, 291 F.2d 563 (2d Cir. 1961).

69. One commentary has suggested some commonplace and legitimate reasons for field of use licensing: (1) testing the utility of the invention in one field while collecting information for a general licensing policy; (2) inability to determine the value of patents in fields not embodied in the license; (3) maintaining exclusivity by the licensee in his field; (4) fitting the needs and production or marketing capabilities of the licensee; and (5) holding down the royalty rates for licensees in certain fields. Oppenheim & Scott, *Limitations in Domestic Patent and Know-How Licensing*, 14 IDEA 193, 202 (1970). See also Austern, *Fish Traps, Indians, and Patents: The Antitrust Validity of Patent License Restrictions on Sales Price, Field of Use, Quantity, and Territory*, 28 U. PITT. L. REV. 181, 188-90 (1966).

who are willing to be limited to a specific use in return for lower royalty rates. Indeed, the great frequency with which the field of use restriction is employed indicates its value to business.<sup>70</sup>

However, this rule of reason approach has been challenged by the Justice Department<sup>71</sup> which would permit licensing restrictions only if the following questions could be answered affirmatively: (1) Is the provision justifiable as necessary to the patentee's exploitation of his lawful monopoly? (2) Are there no less restrictive alternatives available which are more likely to foster competition available to the patentee?

In effect, the Justice Department is postulating a rule of necessity to replace the rule of reason.<sup>72</sup> It is submitted that such a position fails to consider the rationale and justification for the practice in the patent context. The patentee is entitled to full exploitation of his patent monopoly with the only limitation being that he may not extend his monopoly beyond the scope of his patent,<sup>73</sup> as for example, if he refused to grant a license in order to put the licensee at a competitive disadvantage to his competitors. So long as the patentee's conduct does not *additionally* involve a restraint of trade,<sup>74</sup> it is submitted that he is acting within his legitimate patent monopoly,<sup>75</sup> and need not justify the restriction as absolutely necessary.

To guarantee retention of the rule of reason with respect to field of use licensing, an addition to the patent laws is in order, legitimizing field

70. The survey conducted by Messrs. Oppenheim and Scott indicates that 70% of the patent holders engage in some aspect of field of use licensing. Oppenheim & Scott, *supra* note 69, at 202.

71. See note 24 *supra*.

72. This seems to be the theory of a series of cases recently initiated by the Antitrust Division of the Justice Department concerning the licensing of pharmaceuticals. Testimony of Alan S. Ward, Director, Bureau of Competition, Federal Trade Commission, presenting the views of the Federal Trade Commission on the Scott Amendment, *Hearings on S. 643 Before the Subcom. on Patents, Trademarks and Copyrights of the Senate Comm. on the Judiciary*, 92d Cong., 1st Sess. 9 n.11 (1971) [hereinafter cited as *Senate Hearings*].

73. As the Court observed in *General Talking Pictures*:

[T]he patentee may grant a license "upon any condition the performance of which is reasonably within the reward which the patentee by the grant of the patent is entitled to secure."

*General Talking Pictures Corp. v. Western Elec. Co.*, 305 U.S. 124, 127 (1938).

74. Examples of proscribed restraints would include horizontal division of markets, quantity restrictions or customer allocations. See note 68 *supra*.

75. As one noted commentator has suggested:

So long as the patentee acts unilaterally, negotiates vertically with each exclusive licensee, does not restrict the licensee's activity outside the granted field of use, and does not attempt to exercise control over the product after a valid first sale within the authorized field of use, such a practice does not transgress patent law policy. Any challenge of such conduct should be made under the antitrust laws by proving horizontal or vertical restraints on competition outside the scope of the patent grant.

Oppenheim, *supra* note 5, at 12 (footnotes omitted).

of use licensing where reasonable under the circumstances.<sup>76</sup> The following provision is suggested:

*A patent holder may, at his election, license all or any part of his rights under his patent to the parties of his choice, where reasonable to the enjoyment and benefit of his patent.*

### 3. Price Restrictions

While no statutory language condones price restrictions on licenses, courts have followed the rule of reason approach set down in *United States v. General Electric Co.*<sup>77</sup> There, the Court allowed the patentee to fix the prices at which his licensee could sell, stating that this was a condition of sale "normally and reasonably adapted to secure pecuniary reward for the patentee's monopoly."<sup>78</sup>

Since this decision, courts have repeatedly distinguished *General Electric* and found antitrust violations, reducing it to a narrow ambit.<sup>79</sup>

76. The proposed Scott Amendment provides in pertinent part that:

An applicant, patentee, or his legal representative may also, at his election, waive or grant, by license or otherwise, the whole or any part of his rights under a patent . . .

S. 643, 92d Cong., 1st Sess. § 261(b)(2) (1971). On its face, this language could be used to legitimize conduct which would have an anticompetitive result, thus leading to needless litigation and requiring the study of the statutory history. A more satisfactory proposal was suggested by the Department of Commerce, which provided:

No patent owner or applicant for patent shall be guilty of misuse or illegal extension of patent rights *solely* because he licenses less than all the rights which might be licensed under his patent or application for patent, including rights to less than all of the territory, patent term, uses, forms, quantities, or numbers of operations which might be licensed.

Letter from the General Counsel of the Department of Commerce to Senator James O. Eastland expressing the view of the Department of Commerce with respect to S. 643, May 10, 1971, at 39 (emphasis added). This wording, while legitimizing field of use licensing, does not give approval to all its aspects. In effect, the language preserves the property rights of the patentee, while recognizing the application of the antitrust laws in situations where a restriction outside the scope of the patent is involved.

77. 272 U.S. 476 (1926). The Court was careful to distinguish the licensor-licensee situation from the seller-purchaser situation. While condoning the former, the Court stated with respect to the latter:

It is only when . . . he steps out of the scope of his patent rights and seeks to control and restrain those to whom he has *sold* his patented articles in their subsequent disposition of what is theirs, that he comes within the operation of the Antitrust Act.

*Id.* at 485 (emphasis added).

78. *Id.* at 490.

79. For example, it has been held that a patentee cannot fix the prices of his licensee's products if the patent covers only part of the product. *See United States v. General Elec. Co.*, 80 F. Supp. 989 (S.D.N.Y. 1948). Nor can he fix prices if his patent covers the process and machine used in making the product, but not the product itself. *See Barber-Colman Co. v. National Tube Co.*, 136 F.2d 339 (6th Cir. 1943). Nor may he fix prices where there is more than one license. *See Newburgh Moire Co. v. Superior Moire Co.*, 237 F.2d 283 (3d Cir. 1956). Furthermore, prices cannot be fixed by patent owners participating in a cross-licensing arrangement. *See United States v. Line Material Co.*, 333 U.S. 287 (1948).

While the decision still has some vitality,<sup>80</sup> precisely how much is unclear.<sup>81</sup>

It is submitted that a rule of reason approach is appropriate regarding price restrictions on licenses. Since the patentee has the right to exclude others from making, using or selling his product,<sup>82</sup> it would seem to follow that when he surrenders any part of the right he may place restrictions on what he surrenders, where the restraint imposed is within the scope of his patent grant. For example, the patentee may establish a minimum price as a condition of his license to remove the temptation for the licensee to reduce prices and cut corners in production and warranty servicing. Otherwise, a licensee might be tempted to make a quick profit under his license by selling a great volume of defective products at low prices while at the same time destroying the value of the rights the patentee has retained. Clearly such a restriction would be within the patent grant.<sup>83</sup> Because of this and similar situations that might arise, a blanket condemnation of price restrictions by making them per se unlawful is completely inappropriate,<sup>84</sup> and the rule of reason should be retained.

80. See *Westinghouse Elec. Corp. v. Bulldog Elec. Prods. Co.*, 179 F.2d 139 (4th Cir. 1950). Here, the court upheld a licensing agreement which provided that the licensee would not undersell the patentee. In *Ronson Patents Corp. v. Sparklets Devices, Inc.*, 112 F. Supp. 676, 686 (E.D. Mo. 1953), the court stated that a patentee had a right to fix the licensee's selling price in the absence of evidence showing a division of the market to any competitor's damage.

81. The limitations on *General Electric*, (see note 79 *supra*), have prompted some commentators to suggest that the doctrine of *General Electric* is already dead or in imminent danger of being overturned. See statement of Professor John C. Stedman, *Senate Hearings*, *supra* note 72, at 8, wherein it was remarked:

The 45 year old statement in *General Electric* has been withering on the vine virtually ever since it was enunciated. It should be allowed to die and be given a decent burial, not be subjected to artificial resuscitation.

For similar remarks, see Testimony of Ass't Att'y Gen'l Richard W. McLaren, *Senate Hearings*, *supra* note 72, at 18. But see the ATTORNEY GENERAL'S COMMITTEE, *supra* note 5, at 235, where it was stated:

We think, however, that in the absence of horizontal agreement among licensees, or any plan aimed at or resulting in industry-wide price fixing, licenses with price fixing provisions fall within the orbit of the patent and need not run afoul of the antitrust laws.

*Id.* (footnotes omitted).

82. 35 U.S.C. § 271(a) (1970).

83. On the other hand, it would not be within the patentee's patent grant to use the price restrictions to put the licensee at a competitive disadvantage. For example, this could occur in a situation where the patentee also manufactures the product himself. By imposing as a term in the license that the licensee may not sell at a price lower than the patentee, the parties have agreed to suppress competition between them. This type of restriction is beyond the scope of the patent and should be subject to the antitrust laws. Such an agreement would be unrealistic, however, because the patentee is entitled to a royalty payment whether he sells the product himself or the licensee does. For other court-imposed restrictions, see note 79 *supra*.

84. A classification of per se illegality is only justified where the conduct lacks any redeeming value. As stated by the Court in *Northern Pac. Ry. v. United States*, 356 U.S. 1 (1958):

[T]here are certain agreements or practices which because of their pernicious effect on competition and lack of any redeeming virtue are conclusively presumed to be unreasonable and therefore illegal without elaborate inquiry as to the precise harm they have caused or the business excuse for their use.

*Id.* at 5 (emphasis added).

Because the rule of reason approach of *General Electric* to price restrictions in patents is in danger of being overturned,<sup>85</sup> a statutory provision should be added to the patent laws retaining this right.<sup>86</sup> Such a provision might read:

*A patent holder may, at his election, as a condition of the license, determine the price at which his licensee may sell, where reasonable to the enjoyment and benefit of his patent.*

#### 4. Quantity Restrictions

As with price restrictions, there is no statutory language specifically permitting a patentee to impose quantity restrictions on his licensee. However, the practice has been approved by a number of courts<sup>87</sup> where there were no further restrictions on the licensee.<sup>88</sup>

In effect, then, courts have applied a rule of reason approach to licenses with quantity restrictions, a view more appropriate than an alternative rule of per se illegality. Under the prevailing rule, where the restriction is not agreed upon in order to restrain competition, but is "normally and reasonably adapted to secure pecuniary reward for the patentee's monopoly,"<sup>89</sup> it is within his patent grant and is not an antitrust violation. For example, the patentee may impose quantity restrictions on the licensee while he determines whether the licensee will provide adequate warranty servicing. Otherwise the licensee could quickly sell a great quantity of products, just as quickly go out of business, and leave a trail of dissatisfied buyers. This could hurt the

85. The Supreme Court split 4-4 on the question of the validity of license price fixing. *United States v. Line Material Co.*, 333 U.S. 287 (1948). It again split 4-4 on the same question after the Government's procedural error of waiving, in the trial court, any intention of challenging the merits of *General Electric*. *United States v. Huck Mfg. Co.*, 382 U.S. 197 (1965). Otherwise, *General Electric* might have been overturned then and there. For a more complete discussion, see Gibbons, *Field Restrictions in Patent Transactions: Economic Discrimination and Restraint of Competition*, 66 COLUM. L. REV. 423, 456 n.93 (1966).

86. The Scott Amendments included the following proposal:

No patent owner shall be guilty of misuse or illegal extension of patent rights because he has entered into or will enter only into—

(2) an arrangement granting rights under the patent that excludes or restricts conduct in a manner that is reasonable under the circumstances to secure to the patent owner the full benefit of his invention and patent grant. S. 643, 92d Cong., 1st Sess. § 271(f) (1971). This language or a provision substantially similar would retain the rule of reason approach with regard to price restrictions.

87. See, e.g., *United States v. Aluminum Co. of America*, 148 F.2d 416 (2d Cir. 1945); *Baldwin-Lima-Hamilton Corp. v. Tatnall Measuring Sys. Co.*, 169 F. Supp. 1 (E.D. Pa. 1958), *aff'd*, 268 F.2d 395 (3d Cir.), *cert. denied*, 361 U.S. 894 (1959); *United States v. E.I. DuPont de Nemours & Co.*, 118 F. Supp. 41 (D. Del. 1953), *aff'd on other grounds*, 351 U.S. 377 (1956); *Q-Tips, Inc. v. Johnson & Johnson*, 109 F. Supp. 657 (D.N.J. 1951), *aff'd*, 207 F.2d 509 (3d Cir. 1953), *cert. denied*, 347 U.S. 935 (1954).

88. For example, where the limitation also extends to the production of unpatented products, the courts have found an unreasonable restraint of trade. *American Equip. Co. v. Tuthill Bldg. Material Co.*, 69 F.2d 406 (7th Cir. 1934); *United States v. General Elec. Co.*, 82 F. Supp. 753 (D.N.J. 1949). Also, where the restriction is part of a cross-licensing agreement, in effect it becomes an agreement not to compete. *United States v. U.S. Gypsum Co.*, 333 U.S. 364 (1948).

89. *United States v. General Elec. Co.*, 272 U.S. 476, 490 (1926).



reputation of the product and severely harm the remaining rights of the patentee.<sup>90</sup>

Although there is no specific attack on quantity restriction in patent licenses at this time, the "rule of necessity" standard of legality proposed by the Antitrust Division<sup>91</sup> could result in applications of a more stringent standard. Therefore, it is submitted that legislation should be drafted permitting a patentee to impose quantity restrictions on his licensee where reasonable under the circumstances.<sup>92</sup> Its form could be as follows:

*A patent holder may, at his election, as a condition to a license, determine the number of products produced by his licensee, where reasonable to the enjoyment and benefit of his patent.*

C. *Requiring as Consideration from the Licensee a Grant-Back of All Improvement Patents*

At the present time, the legality of grant-back license provisions<sup>93</sup> is somewhat in doubt. Since *Transparent-Wrap Machine Corp. (Transwrap) v. Stokes & Smith Co.*<sup>94</sup> upheld an assignment-back license provision, some courts have found antitrust violations where grant-back provisions were part of an illegal combination.<sup>95</sup> The most serious

90. On the other hand, if the restriction is agreed to in order to limit production and keep the price of each product sold higher, such an arrangement would be, in effect, an agreement to fix prices so as to restrain trade and should be an antitrust violation. However, such an arrangement would be economically unrealistic. The patentee has a lawful monopoly on the product, so that all the products sold, whether by himself or his licensee, will bring in a royalty payment to him, proportional to the selling price. Therefore it should be of little consequence to him whether this royalty results from a smaller quantity at higher prices, or a larger quantity sold at lower prices.

91. See text accompanying note 24 *supra*. In addition, a former head of the Antitrust Division has suggested prohibiting price and quantity restrictions on the ground that they have no redeeming value. Turner, *supra* note 4, at 154.

92. The language of the proposed Scott Amendment § 271(f)(2) would retain the rule of reason approach to quantity limitations. See note 86 *supra*. Procedurally this would place the burden of showing an unreasonable restraint on the party challenging the restriction.

93. The Attorney General's Committee defined grant-backs as follows:

Grant back covenants, sometimes included in patent licenses, provide for license or assignment to the licensor of any improvement patented by the licensee in the products or processes of the licensed patent.

ATTORNEY GENERAL'S COMMITTEE, *supra* note 5, at 227.

94. 329 U.S. 637 (1947).

95. *United States v. National Lead Co.*, 332 U.S. 319 (1947); *United States v. General Elec. Co.*, 115 F. Supp. 835 (D.N.J. 1953); *United States v. Imperial Chem. Indus.*, 100 F. Supp. 504 (S.D.N.Y. 1951); *United States v. Aluminum Co. of America*, 91 F. Supp. 333 (S.D.N.Y. 1950).

On the other hand, some courts have held grant-backs valid. *Zajicek v. Koolvent Metal Awning Corp. of America*, 283 F.2d 127 (9th Cir. 1960); *Binks Mfg. Co. v. Ransburg Electro-Coating Corp.*, 281 F.2d 252 (7th Cir. 1960), *cert. dismissed as not warranted on record*, 366 U.S. 211 (1961); *Old Dominion Box Co. v. Continental Can Co.*, 273 F. Supp. 550 (S.D.N.Y. 1967); *Sperry Prods., Inc. v. Aluminum Co. of America*, 171 F. Supp. 901 (N.D. Ohio 1959), *aff'd in part and rev'd in part*, 285 F.2d 911 (6th Cir. 1960); *International Nickel Co. v. Ford Motor Co.*, 166 F. Supp. 551 (S.D.N.Y. 1958); *United States v. Birdsboro Steel Foundry & Mach. Co.*, 139 F. Supp. 244 (W.D. Pa. 1956); *Modern Art Printing Co. v. Skeels*, 123 F. Supp. 426 (D.N.J. 1954), *rev'd on other grounds*, 223 F.2d 719 (3d Cir. 1955).

threat to *Transwrap* is raised by implication in *Brulotte v. Thys Co.*,<sup>96</sup> where the Court pointed out that a tying arrangement is more general than the exclusion of competition in the tied product; it extends to any projection of the monopoly power of the patentee beyond the life of the patent.<sup>97</sup> Since the improvement patent to be granted back will of necessity extend beyond the lifetime of the parent patent,<sup>98</sup> arguably the grant-back extends the monopoly of the original patent beyond 17 years, and is thus a tying arrangement subject to per se illegality.

It is contended that a per se rule is appropriate only when the grant-back is to be exclusive since non-exclusive grant-backs are sufficiently justified by legitimate business considerations so as to call for a rule of reason approach.

The justification for grant-backs is that the patentee's product may become obsolete through an improvement on the basic patent. Ordinarily a refinement in the area of the original invention is dependent upon and necessarily requires a license of the basic patent. In this situation, the holder of the basic patent has power to demand a license under the improvement patent in exchange for a license under his basic patent. Quite often, however, the improvement will be developed by the party who has previously taken a license under the basic patent. Since the licensee already has the right to use the basic patent, the patentee has no power to demand a license under the improvement. If the improvement renders his patent obsolete, he is no longer able to compete and his patent is effectively rendered worthless. This is particularly true where the patentee is a small company and the licensee is relatively large with well-developed research facilities. The only form of protection which would assure the patentee access to the improvement is a grant-back provision in the original license.<sup>99</sup> In a situation such as described above, an antitrust sanction would be inappropriate because such an arrangement would benefit the public by ensuring competition between a minimum of two parties.

However, where the provision is an exclusive license-back, the policy argument above would fail since the basic patentee is doing more than ensuring his competitive position in the market. He is limiting

96. 379 U.S. 29 (1964). The Court held that provisions in a license agreement for royalty payments beyond the life of the patent were illegal per se as a tying arrangement. *Id.* at 32.

97. *Id.* at 33. The Court stated:

A patent empowers the owner to exact royalties as high as he can negotiate with the leverage of that monopoly. But to use that leverage to project those royalty payments beyond the life of the patent is analogous to an effort to enlarge the monopoly of the patent by tying [*sic*] the sale or use of the patented article to the purchase or use of unpatented ones.

*Id.*

98. The statutory patent grant is a 17 year period. See note 2 *supra*.

99. For a more complete discussion, see Chevigny, *The Validity of Grant-Back Agreements Under the Antitrust Laws*, 34 *FORDHAM L. REV.* 569 (1966); Stedman, *Acquisition of Patents and Know-How By Grant, Fraud, Purchase and Grant-Back*, 28 *U. PITT. L. REV.* 161, 168-72 (1966).

the potential number of competitors to two, and the license becomes, in effect, an agreement to restrain competition in the improvement patent, which is beyond his rights under his basic patent. Where the license provision calls for an assignment-back, the basic patentee has even eliminated the improvement patentee and is left with no competition at all. Stripped of any justification, exclusive license-backs and assignment-backs are blatant tying arrangements and a rule of per se illegality is justified. In *Transwrap*, however, the Court held that the assignment-back was not a classic tying arrangement. Since both the tying and tied products were patents, the patentee was simply using one legalized monopoly to acquire another legalized monopoly.<sup>100</sup> It is posited, however, that holding a legalized monopoly does not privilege a patentee to use it as a lever to obtain an exclusive grant-back of someone else's legalized monopoly. Whether the tied product is patented or unpatented is irrelevant — in either case the patentee is unlawfully enlarging the scope of his monopoly.<sup>101</sup>

Where the licensing provision calls for a non-exclusive grant-back, a rule of reason should apply. As discussed previously, such a provision guarantees that the patentee will be able to compete and enhances competition by ensuring the presence of one more competitor in the market. It should be noted, however, that even where the grant-back is non-exclusive, the patentee is still extending his patent monopoly beyond its original coverage. Therefore, the grant-back license is not flatly excluded from operation of the antitrust laws by the scope of the basic patent grant; instead, it must be justified on the ground that it will not unreasonably restrain competition. For this reason, the Anti-trust Division<sup>102</sup> is seemingly justified in applying its "rule of necessity"<sup>103</sup> to grant-backs. Under this view, the patentee must show that there are no less restrictive alternatives available to him which are more likely to foster competition, and must also show the provision is necessary for the full use and enjoyment of his patent. In light of these criteria, the following factors must be considered: (1) Whether the patentee is competing, or is likely to compete with his licensees. If the two are not in competition, the justification for the provision of re-

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100. 329 U.S. at 644.

101. See note 97 *supra*.

102. The head of the Antitrust Division has stated:

For example, we contemplate challenging under Section 1 of the Sherman Act patent licenses which require an assignment grantback of all improvement patents. It is our view that the right to a nonexclusive license back on improvements may be a legitimate provision in the licensing of a basic patent but that a grantback requirement tends unduly to extend the patent monopoly and to stifle research and development efforts on the part of licensees, contrary to the public interest. Although we think it is distinguishable, the Supreme Court's *Trans-Wrap* decision will in some degree be called into question by this challenge.

McLaren, *supra* note 24, at 63.

103. See text accompanying note 24 *supra*.

taining an ability to compete is weakened.<sup>104</sup> (2) The relative size of the patentee and the prospective licensee. If the size of the patentee company is very small compared to the size and resources of the licensee, then the patentee legitimately needs the protection of a grant-back provision to remain competitive.<sup>105</sup> (3) The likelihood that the patentee would develop the improvement himself in the absence of the grant-back provision. If the patentee is possessed of sufficient resources to develop the improvement himself, the necessity of the grant-back provision is lessened. Moreover, the existence of the provision may actually blunt the patentee's impulse toward further development. (4) The number of licensees. Where there are a great number, there is a strong likelihood that the original patentee will have access to a great number of improvements. Even though the license-back is non-exclusive, in the absence of extensive cross-licensing, he will be the only party with access to all the improvements developed. This gives him a competitive advantage over all competitors and does more than merely preserve his ability to compete.<sup>106</sup> (5) The scope of the grant-back provision. Where the licensee is required to grant-back not only improvements complementary to the original patent, but also any development related to the original patent, the patentee is not solely maintaining his competitive posture; rather, he is using his monopoly to gain a competitive advantage over the entire industry.

To reflect these considerations, the patent laws should be amended to provide that exclusive grant-backs are an illegal extension of patent rights, and that non-exclusive grant-backs will be judged by the antitrust rule of reason.<sup>107</sup> The following language is suggested:

*A patent holder may, at his election, as a condition of a license, require as part of his consideration a non-exclusive grant back of patent rights, where necessary to preserve full use and enjoyment of his patent rights.*

104. Of course, as one commentator points out, the patentee may still have a legitimate interest in a grant-back provision; it makes his patent more valuable in the event he decides to assign it to someone else. Chevigny, *supra* note 99, at 583.

105. It has been suggested that if the apparent trend toward supremacy of the antitrust laws continues, a grant-back provision would be invalid even in this type of situation. Oppenheim, *supra* note 5, at 15.

106. See Chevigny, *supra* note 99, at 584.

107. The proposed Scott Amendment suggests the following language with regard to grant-backs:

No patent applicant or patent owner shall be guilty of misuse or illegal extension of patent rights because he has entered into, or will enter only into, an arrangement of assignment, license, or waiver of some or all of his rights under this title for a consideration which includes—

(1) a non-exclusive license or waiver of patent rights.

S. 643, 92d Cong., 1st Sess. § 271(g) (1971). This proposed section on its face would give blanket approval to any non-exclusive grant-back no matter what the economic effect. This provision could be remedied by prefixing the section with: "Where necessary to preserve full use and enjoyment of his patent rights."

## D. Royalty Payments

## 1. Freely Negotiated Payments

The right of a patentee to charge whatever the traffic will bear to license his patent would seem beyond discussion. Although there is no specific statutory authority, this right flows by implication from the personal property attributes of a patent.<sup>108</sup> Moreover, this right was judicially recognized in *United States v. General Electric Co.*<sup>109</sup> and reaffirmed in 1964 in *Brulotte v. Thys Co.*<sup>110</sup>

It is posited that a freely negotiated royalty arrangement is justified for two reasons. First, the market place provides whatever price controls are needed. Where the royalty rates are too high, the licensee's selling price is forced to uncompetitive levels. This reduces the number of products sold and consequently the total royalty payments to the patentee. For their mutual benefit, the patentee and licensee will renegotiate a lower, more realistic royalty rate. Second, if exorbitant rates were grounds for a charge of patent misuse, a substantial number of prospective licensees, dissatisfied with the rate offered, would challenge the arrangement in court.<sup>111</sup> Such a frightening potential consequence would probably discourage many patent holders from licensing at all and thus deprive the public of the full benefit of their discovery.

No courts have actually held that exorbitant royalty rates were violative of the antitrust laws. While in *American Photocopy Equipment Co. v. Rovico, Inc.*<sup>112</sup> the Court of Appeals for the Seventh Circuit used language indicating that exorbitant royalty rates violated antitrust laws,<sup>113</sup> the court held that the machine on which royalties were based substantially contained unpatented parts so that the high royalties were in effect tying the sale or use of the patented article to the sale or

108. 35 U.S.C. § 261 (1970).

109. 272 U.S. 476 (1926). The Court stated:

Conveying less than title to the patent, or part of it, the patentee may grant a license to make, use and vend articles under the specifications of his patent for any royalty . . . .

*Id.* at 489. The Court upheld the right of a patentee to dictate the selling price of the patented article to his licensee. See notes 77-86 and accompanying text *supra*.

110. 379 U.S. 29 (1964). The Court stated:

A patent empowers the owner to exact royalties as high as he can negotiate with the leverage of that monopoly.

*Id.* at 33. The Court outlawed royalty payments beyond the expiration of the patent. See notes 117-24 and accompanying text *infra*.

111. See *Stearns v. Tinker & Rason*, 252 F.2d 589 (9th Cir. 1957). There, the court commented that:

To say that the mere amount of money due and payable for the grant of a license is subject to judicial review would render each and every agreement made subject to court approval.

*Id.* at 605. The court found misuse on other grounds.

112. 359 F.2d 745 (7th Cir. 1966).

113. *Id.* at 747. The court stated:

The record before us shows that the license agreements in effect require plaintiff's licensees to fix a minimum selling price far above the price which they would otherwise charge and that the royalty policy of plaintiff is in violation of the antitrust laws of the United States, being exorbitant and oppressive.

use of the unpatented article.<sup>114</sup> Nevertheless, the language used was so loose and unnecessarily broad that a court, at least in the Seventh Circuit, might feel constrained to follow a literal interpretation of the language. To preclude this possibility, the patent laws should be amended to explicitly provide that a patentee may charge whatever amount he desires for a license under his patent.<sup>115</sup> The following language would ensure that right:

*A patent holder may, at his election, as a condition of his license, require, as all or part of his consideration, a royalty of any amount, where reasonable to the enjoyment and benefit of his patent.*

## 2. *Payments After the Patent Has Expired*

In *Brulotte v. Thys Co.*,<sup>116</sup> royalty agreements that projected beyond the expiration date of the patent were classified as per se illegal where they were based on post-expiration activities. The Court viewed such an agreement as a type of tying arrangement in that the patent was being used as leverage to force payment for use of the product after the patent has expired.<sup>117</sup> The Court's holding appeared to flatly rule out any deferred payment plans, even where the royalties were based on pre-expiration activities. There were hints in the decision, however, that the Court might view the latter situation differently.<sup>118</sup> These hints were affirmed in *Zenith Radio Corp. v. Hazeltine Research, Inc.*,<sup>119</sup> where the Court stated with regard to its holding in *Brulotte*:

Recognizing that the patentee could lawfully charge a royalty for practicing a patented invention prior to its expiration date and that

114. *Id.* at 748.

115. The proposed Scott Amendments provide:

No patent applicant or patent owner shall be guilty of misuse or illegal extension of patent rights because he has entered into, or will enter into, an arrangement of assignment, license, or waiver of some or all of his rights under this title for a consideration which includes . . . a royalty, fee, or purchase price . . . in any amount . . . .

S. 643, 92d Cong., 1st Sess. § 271(g)(2)(A) (1971).

This language would preserve the right of a patentee to charge whatever the traffic will bear for a license under his patent. There is no need to codify the holding of *American Photocopy* as an illegal tying arrangement under this section. This type of tying arrangement could be attacked under already existing case law. *Brulotte v. Thys Co.*, 379 U.S. 29 (1964).

116. 379 U.S. 29 (1964).

117. *Id.* at 33. The Court stated:

A patent empowers the owner to exact royalties as high as he can negotiate with the leverage of that monopoly. But to use that leverage to project those royalty payments beyond the life of the patent is analogous to an effort to enlarge the monopoly of the patent by tying [*sic*] the sale or use of the patented article to the purchase or use of unpatented ones.

118. At one point in the opinion, the Court stated:

The Supreme Court of Washington held that in the present case the period during which royalties were required was only "a reasonable amount of time over which to spread the payments for the use of the patent" . . . . But there is intrinsic evidence that the agreements were not designed with that limited view.

*Id.* at 31 (citations omitted).

119. 395 U.S. 100 (1969). The Court's holding was that conditioning the grant of licenses upon the payment of royalties on unpatented products constitutes patent misuse. *Id.* at 140-41.

the payment of this royalty could be postponed beyond that time, we noted that the post-expiration royalties were not for prior use but for current use, and were nothing less than an effort by the patentee to extend the term of his monopoly beyond that granted by law.<sup>120</sup>

It is submitted that the right to enter into deferred royalty payments based on pre-expiration activities should be codified by an amendment to the patent laws. This will prevent a court from fastening onto the broad language used in *Brulotte* and holding all deferred royalty payments illegal per se. Some commentators have objected to such codification on the ground that contractual provisions will be drawn up which will mask royalty payments based on post-expiration activities.<sup>121</sup> Admittedly, a determination of whether a royalty is based on pre-expiration or post-expiration activities is difficult. However, this difficulty should not justify failure to provide statutory clarification since there are occasions where deferred payments are a clear necessity.<sup>122</sup> Quite often during his first years of production under a patent license, the licensee is simply unable to pay royalties due to production set-up costs and an initial small market. Later, after the patent has actually expired, the set-up costs have been paid, a market is established, and the licensee is more able to pay. In such an instance, a deferred arrangement only reflects economic realities. For this reason, the businessman-patentee is entitled to some assurance that upon a demonstration on his part that the royalty payments are based on pre-expiration activity, he will not be liable for patent misuse.<sup>123</sup> The following statutory addition would provide that assurance:

*A patent holder may, as a condition of a license, require, as all or part of his consideration, a royalty, however paid or measured, provided that any amount paid after the expiration of a patent is based solely on pre-expiration activities.*

### 3. Payments Based on the Entire Package

Package licensing refers to a situation where the royalty rate prescribed by the agreement does not segregate the charge for any particular

120. *Id.* at 136.

121. This was the position taken by the Antitrust Division during the hearings on the Scott Amendments. See *Testimony of Ass't Att'y Gen'l Richard W. McLaren, Senate Hearings*, *supra* note 72, at 26-27.

122. The situation with regard to pre-issuance royalties is different. Since application proceedings in the Patent Office are held in confidence until the patent issues, in effect the royalties during this period are in payment for a trade secret. Trade secrets are a proper basis for royalty payments. See *Painton & Co. v. Bourns, Inc.*, 442 F.2d 216 (2d Cir. 1971), noted in 17 VILL. L. REV. 376 (1971). For a more complete discussion, see Austern, *Umbras and Penumbra: The Patent Grant and Antitrust Policy*, 33 GEO. WASH. L. REV. 1015, 1019-21 (1965).

123. S. 643, 92d Cong., 1st Sess. § 271(g)(2)(A) (1971). This language would guarantee the right of deferred payments while recognizing that royalties based on post-expiration royalties are illegal. This language is consistent with the position of *Brulotte*. See note 115 *supra*.

patent.<sup>124</sup> Where the package license is entered into voluntarily, the courts have found no patent misuse.<sup>125</sup> However, where the licensee is compelled, expressly or impliedly,<sup>126</sup> to take a license for the entire package, the courts have struck down the arrangement as being in the nature of a tying clause.<sup>127</sup>

One natural consequence of the package license arrangement is that royalties will not diminish as individual patents expire. Logically, if the package license agreement were voluntary and legal when entered into, the royalty arrangement incident to it should also be legal. However, courts have not always seen it that way. In *Brulotte v. Thys Co.*,<sup>128</sup> the Supreme Court held that a provision for royalties beyond the expiration of the last patent incorporated in the product is illegal as a form of tying arrangement.<sup>129</sup> The Court did imply that royalties for package license arrangements would remain legal so long as some patents remained un-

124. One survey revealed that almost 75 per cent of the companies contacted had licensing agreements covering more than one patent. Oppenheim & Scott, *supra* note 69, at 199.

125. As the Court stated in *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100 (1969):

If convenience of the parties rather than patent power dictates the total-sales royalty provision, there are no misuses of the patents and no forbidden conditions attached to the license.

*Id.* at 138. Justice Harlan, dissenting, criticizes this standard as unworkable. *Id.* at 141. See also *Automatic Radio Mfg. Co. v. Hazeltine Research, Inc.*, 339 U.S. 827 (1950).

126. An implied compulsory license would occur where the patentee offers the licensee the patents that he really wants at a rate equal to or greater than the asking price for the entire package the patentee is offering. Hence, there is strong incentive for the licensee to take the whole package. As when the compulsion is express, the patentee is using the desired patents as a lever to force the licensee to accept the entire package.

127. As the Court stated in *Zenith Radio*:

But we do not read *Automatic Radio* to authorize the patentee to use the power of his patent to insist on a total-sales royalty and to override protestations of the licensee that some of his products are unsuited to the patent or that for some lines of his merchandise he has no need or desire to purchase the privileges of the patent. In such event, not only would royalties be collected on unpatented merchandise, but the obligation to pay for nonuse would clearly have its source in the leverage of the patent.

395 U.S. at 139. See also *Times-Picayune Publishing Co. v. United States*, 345 U.S. 594 (1953); *Standard Oil Co. v. United States*, 337 U.S. 293 (1949); *United States v. Columbia Steel Co.*, 334 U.S. 495 (1948); *International Salt Co. v. United States*, 332 U.S. 392 (1947).

There is some question as to the extent of the illegality involved in use of the tying arrangement in the package licensing situation. The penalty for misuse of patent is nonenforceability of the patent. See, e.g., *American Security Co. v. Shatterproof Glass Corp.*, 268 F.2d 769 (3d Cir.), *cert. denied*, 361 U.S. 902 (1959). Some Supreme Court decisions have held in addition that compulsory package licenses are automatically antitrust violations, without any further examination to determine whether the tying patent itself has sufficient market power to make any tying clause an antitrust violation. See, e.g., *Standard Oil Co. v. United States*, 337 U.S. 293 (1949), where the Court stated: "[a] patent, moreover, although in fact there may be many competing substitutes for the patented article, is at least *prima facie* evidence of . . . [market] control." *Id.* at 307. Other commentators have felt that an examination of the entire factual setting is necessary to determine if the patent has enough market power to create a significant antitrust violation. See ATTORNEY GENERAL'S COMMITTEE, *supra* note 5, at 238.

128. 379 U.S. 29 (1964).

129. *Id.* at 33. See notes 116-23 and accompanying text *supra*.



expired.<sup>130</sup> However, the Court of Appeals for the Sixth Circuit in *Rocform Corp. v. Acitelli-Standard Concrete Wall, Inc.*<sup>131</sup> used *Brulotte* to hold that undiminished royalties are illegal where they continue beyond expiration of the "most important" patent.<sup>132</sup>

It is submitted that a determination of the "most important" patent is inappropriate since this may vary according to the needs and intended uses of each particular licensee. Further, the administration of such a standard would be difficult because of problems of proof. A more reliable test would be to determine whether the arrangement was entered into voluntarily or involuntarily. Where the arrangement is truly voluntary, the licensee by implication has determined that no one patent in the package is of paramount importance; indeed, it is more important to him to have the privilege to utilize all the patents in the package. This frequently occurs where the patentee holds a large number of key patents in a given area of technology. The licensee, planning to market a product involving this area of technology, knows that he will need a license under some of the patents. However, at the planning stage, it is often impossible for him to tell which patents in a particular area will be needed. Therefore he will enter into an arrangement with the patentee to license all of the patents for a period of years at a lower total royalty than if individual arrangements were made for each patent. The lower rate will result partly from the saving of bookkeeping expenses which would be needed to keep records on each patent.<sup>133</sup>

If the "most important" patent test is adopted, there is danger that a licensee could enter into a bargain package license arrangement because he is unsure which individual patents he will use. Later, when in operation, he may refuse to pay royalties by claiming that the "most important" patent has expired. This would allow the licensee the best of all possible worlds,<sup>134</sup> and the patentee may be hesitant to seek legal enforcement because of the dangers of an antitrust counterclaim.

Besides this concern, it is submitted that such a test is unnecessary because if one patent is obviously much more important than the rest of the package, a presumption would arise that the patentee compelled

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130. The Court took note of its decisions in *Automatic Radio Mfg. Co. v. Hazeltine Research, Inc.*, and stated that the rule of undiminished royalties could not be extended to a period beyond expiration of all patents; the implication was that where some remain unexpired, undiminished royalty arrangements are still proper if voluntarily entered into. 379 U.S. at 33. This implication was confirmed in *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100 (1969). See note 125 *supra*.

131. 367 F.2d 678 (6th Cir. 1966).

132. *Id.* at 681.

133. For a more complete discussion, see Comment, *Unreduced Royalty Arrangements and Packaged Patents: An Improper Extension of the Patent Monopoly?*, 66 MICH. L. REV. 1248 (1968).

134. In *Zenith Radio Corp.*, the Court observed:

If the licensee negotiates for "the privilege to use any or all of the patents and developments as [he] desire[s] to use them," . . . he cannot complain that he must pay royalties if he chooses to use none of them. He could not then charge that the patentee had refused to license except on the basis of a total-sales royalty. 395 U.S. at 139 (citations omitted).

the licensee to take the entire package. Thus, such a royalty maintenance scheme would be illegal under the compulsory-voluntary package test.<sup>135</sup>

In support of the proposition that a truly voluntary package should be valid, it should be noted that the public will actually benefit through an arrangement of convenience between the patentee and the licensee. Since the administrative costs will be lower for the patentee if he is not required to treat patents individually, the consumer will ultimately share the saving.<sup>136</sup> To preserve the right to enter into a voluntary package license agreement and to overrule *Rocform*, the patent laws should be amended to provide that a voluntary package arrangement may be employed without fear of antitrust implications.<sup>137</sup> The following language is suggested:

*A patent holder and his licensee may voluntarily enter into a royalty arrangement for a number of patents where the royalty is not computed in a manner that segregates the charges for any particular patent.*

#### 4. Payments Which Differ Among Licensees

In situations where the patentee grants non-exclusive licenses to a number of licensees, he will necessarily negotiate and contract with each prospective licensee separately. In such instances, it is not unusual for

135. One commentator has suggested that there are situations in which even a compulsory package license should be valid. Austern, *supra* note 122, at 1023-24. This could occur where several patents must be jointly licensed for any commercially feasible use. In *International Mfg. Co. v. Landon, Inc.*, 336 F.2d 723, 729 (9th Cir. 1964), *cert. denied*, 379 U.S. 988 (1965), the court held that a mandatory package license of two patents was not illegal where there was no commercially feasible device which could be made under one of the patents without infringing the other. Here, there was particularly strong proof by a showing that no one had ever asked for a license under one of the patents alone.

136. Where the licensee is forced to accept patents in a package he does not really want, the royalty will be higher than if he had been permitted to take a license on only the patent he needed. He will pass this increased cost on to consumers. Thus, in the compulsory package situation, the public will bear the increased costs and here, quite correctly, the courts have condemned such practices. See note 127 *supra*.

137. The proposed Scott Amendments would effectuate this result:

No patent applicant or patent owner shall be guilty of misuse or illegal extension of patent rights because he has entered into, or will enter only into, an arrangement of assignment, license, or waiver of some or all of his rights under this title for a consideration which includes . . . a royalty, fee, or purchase price . . . not computed in a manner that segregates the charge for any particular patent, or for any particular claim or claims of one or more patents . . . .  
S. 643, 92d Cong., 1st Sess. § 271(g)(2)(C) (1971).

The language used here is sweeping enough to be used to cover compulsory package licensing. A more acceptable form would embrace the phrase "voluntarily entered into." This would permit voluntary package licensing while excepting compulsory package licenses.

This language would favorably represent the opinion of the Attorney General's Committee which stated:

[W]e believe that strictures against package licensing should not be applied to frustrate good faith license offers. Package licensing should be prohibited only where there is refusal, after a request, to license less than a complete package . . . .  
ATTORNEY GENERAL'S COMMITTEE, *supra* note 5, at 239-40.

Of course there are instances where even a compulsory package license would be justified. See note 135 *supra*. Consequently, even these practices should be legal where there is a showing of substantial justification.

the licensing arrangement to be set at different rates for each licensee. There may be any number of reasons why this occurs. A patentee may discover that the rate contracted for with his first licensee was low compared to the real value of the license. The establishment of a market by the first licensee may actually enhance the value of the patent and consequently the royalty rates for a license under it. Conversely, if the first licensee received the bad side of the bargain, the patentee may discover that subsequent prospective licensees insist on a lower rate. Even when two parties seek licenses simultaneously, the license may be worth more to one than the other, and consequently the patentee may be able to extract a higher royalty from one than the other. Where differing royalty rates are assessed because the patentee is maximizing his pecuniary reward, the courts have held them valid.<sup>138</sup> This result is consistent with the principle that the patentee is entitled to consideration "normally and reasonably adapted to secure pecuniary reward for the patentee's monopoly."<sup>139</sup>

On the other hand, some courts have found antitrust violations where discriminatory royalty rates were charged.<sup>140</sup> In those cases, however, there was evidence that one party was given a lower rate to give it a competitive edge over the other and, thus, these decisions are consistent with the right of the patentee to a pecuniary reward for the patent. The patent granted merely protects the competitive superiority of the invention; it does not give the patentee the right to favor one competitor at the expense of another.<sup>141</sup> Hence, the patent grant extends no protection to these activities and the antitrust laws should freely apply to find a conspiracy to restrain competition.

The White House Task Force has proposed that all patentees should be required to grant subsequent licenses on terms "neither more restrictive nor less favorable" than the first licenses.<sup>142</sup> The Task Force felt that such a provision would prevent a patentee from granting preferen-

138. See, e.g., *Bela Seating Co. v. Poloron Prods., Inc.*, 297 F. Supp. 489 (N.D. Ill. 1968), where the court stated:

A patent owner is not required to grant licenses to all comers at equal rates and terms. He may select or reject prospective licensees and prefer one over another for consideration within his discretion.

[P]laintiff has shown that it was a mistake to grant [a prior licensee] a license at such a low royalty rate and plaintiff is not required to make the same mistake again.

*Id.* at 509.

139. *United States v. General Elec. Co.*, 272 U.S. 476, 490 (1926).

140. *La Peyre v. FTC*, 366 F.2d 117 (5th Cir. 1966); *Peelers Co. v. Wendt*, 260 F. Supp. 193 (W.D. Wash. 1966); *Laitram Corp. v. King Crab, Inc.*, 245 F. Supp. 1019 (D. Alas. 1965). For a comprehensive discussion of *La Peyre*, see Note, *supra* note 31.

141. Naturally, in every instance where several licensees are paying different rates, the party with the lowest rate has the competitive advantage, but where this is merely incident to the patentee's attempt to secure his pecuniary reward, there is no intended harm to competition. It is submitted that in such an instance there should be no antitrust violation.

142. WHITE HOUSE TASK FORCE, *supra* note 22, at 22.

tial treatment to one group over another.<sup>143</sup> While this provision would prevent preferential treatment, it is submitted that such a provision is overbroad and unnecessary. Courts have already found antitrust violations in situations where preference is shown.<sup>144</sup> Moreover, such a provision would deny all the legitimate reasons for differing rates.

This proposal creates uncertainty as to the future legality of this conduct. The patent laws should be amended to reaffirm the right of a patentee to charge differential royalty rates where incident to enjoyment of his patent.<sup>145</sup> The following statutory language would further that objective:

*A patent holder may, at his election, require as consideration a royalty differing from that provided in arrangements with other licensees, where such consideration is reasonable to the enjoyment and benefit of his patent.*

### III. CONCLUSION

The approach taken by this Comment has been that the balance presently existing between the patent and antitrust laws should in large measure be retained. The function of both bodies is to promote competition. Although there is much criticism of the anticompetitive effects of the patent system, it is difficult to see its deleterious effects on commerce in the United States. Since the late nineteenth century, the United States has experienced unparalleled technological advances. For that reason, legislation should be enacted to ensure that the rule of reason approach to patent licensing is retained. To that end, the following general propositions have been presented: first, that a patentee have the right to license whomever he wishes and at those terms which are reasonable to the enjoyment of his patent grant; further, that he be permitted wide latitude in the mode of permissible compensation for licensing his patent. Adoption of these proposals, it is submitted, should help to create a healthy business atmosphere conducive to both technological innovation and free competition.

*N. R. Powers*

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143. *Id.* at 23.

144. *See* note 140 *supra*.

145. The proposed Scott Amendment states:

No patent applicant or patent owner shall be guilty of misuse or illegal extension of patent rights because he has entered into, or will only enter into, an arrangement of assignment, license, or waiver of some or all of his rights under this title for a consideration which includes . . . a royalty . . . differing from that provided in some other arrangement.

S. 643, 92d Cong., 1st Sess. § 271(g)(2)(D) (1971). This language is overbroad in its protection of the patentee and could be used to justify the presently condemned practice of using differential rates to give one licensee a competitive advantage over another. This language could be made acceptable by adding a phrase at the end, "where incident to reasonable enjoyment of his patent."